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CMA Provisional Decision: Review of the SME Banking Undertakings 2002 (Removing Bundling Limitation) Innovate Finance response

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Innovate Finance's mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

The UK FinTech sector covers businesses from seed-stage start-ups to global financial institutions that embrace digital solutions, playing a critical role in technological change across the financial services industry. FinTech has grown since the Global Financial Crisis of 2007/8, which led to mistrust in traditional banks and coincided with an explosion in the use of smartphones, widespread adoption of the use of apps, the advent of blockchain technology, and significant investment in FinTech start-ups. The sector has played an important role filling the gap in small and medium-sized (SME) and consumer banking services after incumbent banks decreased their risk tolerances post-financial crisis, and more recently limited various SME and consumer-focused banking services due to increasing legal and financial liability for sanctions, money laundering and fraud.

FinTech is therefore synonymous with delivering transparency, innovation and inclusivity to financial services. In addition to creating new businesses and new jobs, it has fundamentally improved the ways in which consumers and businesses, especially SMEs, access financial services.

We represent most of the UK's digital-first and digital-only challenger banks, all of whom hold a UK banking licence.

1. Response to consultation

1.1 Innovate Finance welcomes the opportunity to respond to the Competition and Markets Authority's (CMA) *"Provisional decision: Review of the SME Banking Undertakings 2002"* which is also referred to as the "Limitation on Bundling Provisions" (LOBP). In preparing this submission, we have engaged with a cross-section of our membership, including start-up and scale-up challenger banks.

1.2 We acknowledge the CMA's assessment that market conditions have evolved since the introduction of the undertakings in 2002. However, the data provided confirms that competition remains concentrated among the Bound Banks. Given the close relationship between products and entrenched monopolistic market structure, the LOBP remains a fundamental principle of enabling fair competition. The change of conditions cited have been largely facilitated by, and are not independent from, the unbundling restriction. Furthermore, the removal of the restriction risks undermining or reversing gains from the government's significant investment since 2014 in creating competition. We therefore challenge some of the justifications cited in the Decision. Finally, we note that removing restrictions on "National Champions" in any market ultimately suppresses competition and innovation, resulting in less choice, higher prices and worse service quality for SMEs.

1.3 We therefore do not support the removal of the limitation on bundling because there appears to be minimal benefit in its removal (the only potential benefit being reduced operational cost at the Bound Banks, but we understand this cost to be minimal given how long the Bundling Limitation has been established), and meaningful risk of detriment to established SMEs if it were removed. In this regard, it is notable that applications of bundling that are necessary for providing the loan or giving the customer a benefit are already allowed under the existing restrictions.

1.4 The CMA does not appear to have undertaken analysis of these critical items in its provisional decision. We believe it is important the CMA directly analyses the established SME market, including non-bank payment account providers and lenders, that is circa 1/3rd of UK GDP, in making its final decision.

2. Progress Made Since 2002 vs Continued Market Dominance

2.1 As noted in the CMA's provisional decision, there has been some progress in developing a more competitive landscape for SME banking services since 2002. Initiatives and regulatory progress including but not limited to Open Banking, the establishment of the British Business Bank and the granting of banking licences to new challenger banks have all led to more options and choices for SME's when sourcing finance and deposit providers.

2.2 While acknowledging that there has been a material increase in the diversity of providers and product offerings to SMEs, it is less clear how the CMA have concluded that there has been a *"material reduction in market concentration"*:

(a) The Bound Banks continue to maintain significant market share in SME banking. While a c.10-20% reduction in share since 2002 is noted in the CMA's provisional decision, Bound Banks are estimated by the CMA to continue to provide 60-80% of SME lending, and two banks in particular are noted to each hold a 30-40% share by number of loans.

(b) The conclusion on the total level of SME deposit accounts market share is less clear. However, the CMA's provisional decision notes that one bank also has a 30-40% share by both value and number of deposit accounts. While the other Bound Banks are noted to have less than a 20% share, if each of the other five has on average a 10% share, this would equate to the Bound Banks maintaining in aggregate 80-90% market share.

2.3 This level of market share continues to be alarming, particularly considering that the CMA has a 25% market share threshold to investigate mergers where they may lead to uncompetitive conditions.[1]

2.4 We would also re-emphasise the point made in our original consultation response that there is a meaningful difference between micro and established SME markets.[2]

2.5 The new start and microbusiness Business Current Accounts (BCA) market has changed a lot in the last ~8 years driven by innovation from our challenger bank members, with total market share of neobanks in microbusiness estimated at c.25% (and materially higher for share of new starts).

2.6 However, the established SME BCA / switcher market remains moribund in comparison. For example:

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[1] GOV.UK, *Mergers: when they will be investigated*. See here: https://www.gov.uk/mergers-when-they-will-be-investigated

[2] Innovate Finance, *CMA Consultation on the Review of SME Banking Undertakings 2002 (Removing Bundling Limitation): Innovate Finance response*. See here: https://www.innovatefinance.com/consultation/cma-consultation-on-the-review-of-sme-banking-undertakings-2002/

(a) Pay.UK data shows there are only c.20-25k current account switch service (CASS) switches per annum for business/charities, which is less than c.1% of SMEs that could be switching (based on businesses >2 years old); and

(b) A Q1-25 survey by our challenger bank member, Allica (which we know has been shared by Allica to the CMA), of the BCA market focused on SMEs with 10+ employees showed the 5 major banks holding 89% BCA share, other traditional banks at 5% and digital banks at 6%.

2.7 The established SME market is critical in terms of the CMA considering the linkage between Loans and BCAs, as almost all SME lending goes to firms established >2 years, and c.70% of SME lending goes to firms with 10+ employees.

2.8 This is particularly true when considering the fact that the Financial Conduct Authority's (FCA) Consumer Duty does not cover these established SMEs.

3. Changes in competitive landscape

3.1 The CMA's 2016 Bundling Review stated that "*there are strong product linkages between BCAs and SME lending, and together with the information asymmetries between an SME's BCA provider and other lending providers, this favours longer-established banks.*"[3] This is an enduring principle. Given that SMEs are not multi-account holders, if the bundling restriction is reversed, SMEs seeking fixed-term lending and deposit account facilities will no longer be able to access challenger banks and alternative BCA providers, such as e-money and payment institutions. This also disadvantages new and innovative payment and short-term funding services such as deposit aggregators, which utilise omnibus accounts to move customer funds between the highest interest paying accounts. Bundling will not only restrict market access for competitors, but also remove incentives for BCA providers to offer competitive BCA account pricing and service quality.

3.2 Regarding the strength of 'out of market' constraints, the FCA/CMA Decision data states that this sector combined with the challenger bank sector together still represents less than a fifth of the BCA market, at best. While there has been a material increase in diversity of providers, this has not yet resulted in a material reduction in market concentration with the Bound Banks retaining 80% of market share.

3.3 Regarding the ease of entry and expansion, there is ample evidence refuting the claim that the number of new banks as a sign of ease of challenger bank entry or expansion. The Prudential Regulation Authority (PRA) website[4] states that 40 banks (not including a new HSBC bank) entered the market since 2013, but also that 11 have already withdrawn from the market, and there is no basis to assume that all those remaining compete in the SME lending and BCA markets. Furthermore, the challenges for small banks to scale remain significant. In particular, the small bank sector is subject to, and at a higher cost to fund, higher capital requirements than the large bank sector. Capital requirements are the greatest cost for any regulated firm. The UK Financial Policy Committee reports every quarter that the small bank sector is capitalised at an average of 18% versus 14% for the

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[3] See Paragraph 4.20 in Competition and Markets Authority, *Review of 2002 SME banking undertakings: Final decision. 9 August 2016*. See here: https://assets.publishing.service.gov.uk/media/57a8c29940f0b608ab000000/sme-undertakings-final-decision.pdf

[4] Bank of England, *New banks authorised since 2013*. See here: https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit/new-banks-authorised-since-2013

large bank sector.[5] These high capital requirements present a material barrier to growth and investability in new banks and remain internationally uncompetitive. The challenger bank sector is also subject to disproportionate resolution capital requirements (for example and notably, MREL ("minimum requirement for own funds and eligible liabilities")) rules. We continue to engage with HM Treasury (HMT), the PRA and Bank of England to advocate for a level playing field between smaller and larger banks and would be happy to share our work on these issues.

4. CHANGES IN CONSUMER BEHAVIOUR

4.1 While we concede that there has been an increase in customers' propensity to shop around, the Decision does not make the case that this has led to a material change in consumer buying behaviour.

4.2 The research cited in the Decision indicates that 44%, nearly half of all SMEs, look only to existing providers, with a full third looking only to their "main bank".[6] The Decision also states that the dismal 3-4% SME switching rate remains stubbornly unchanged since 2002, despite improvements in product disclosure, the availability of comparison websites, and the CASS service making switching quicker, easier and lower risk than in 2002.[7] This data does not support the statement in the Decision that digital solutions and Open Banking are responsible for a material change in circumstances.

5. DEVELOPMENTS IN THE REGULATORY LANDSCAPE

[5] See Table 5.A in Bank of England, *Financial Stability Report: Financial Policy Committee, July 2015.* See here: https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2025/financial-stability-report-july-2025.pdf

[6] See Paragraph 2.45 of Competition and Markets Authority, *Review of the SME Banking (Behavioural) Undertakings 2002: Provisional Decision, 13 August 2025*. See here: https://connect.cma.gov.uk/sme-banking-undertakings-review-provisional-decision

[7] See Paragraph 2.50-2.51 of Competition and Markets Authority, *Review of the SME Banking (Behavioural) Undertakings 2002: Provisional Decision, 13 August 2025*. See here: https://connect.cma.gov.uk/sme-banking-undertakings-review-provisional-decision

5.1 The Decision concludes that the FCA's Consumer Duty *"does not provide an equivalent level of protection as the LOBP"*.[8] This is due to the Consumer Duty applying to a significantly narrower subset of SMEs (i.e. for BCA and deposit taking, turnover over/balance sheet less than £2m and fewer than 10 employees), while the LOBP applies to all SMEs with annual sales revenue up to £25m (excluding VAT or turnover related taxes).

5.2 This limitation in scope of the Consumer Duty means that only the smallest SMEs will qualify for any protection under Customer Duty, and as per the above section, it is the SMEs that are not protected by Consumer Duty where there is still a substantial competition issue. For example, the UK Department for Business and Trade statistics illustrate that there is very low eligibility based on average positions[9]:

	Businesses	Employment (thousands)	Turnover (millions)	Avg. Employees	Avg. Turnover
SMEs (0 to 249 employees)	5,490,740	16,637	2,752,154	3	165
With no employees	4,071,825	4,439	366,012	1	82
All employers	1,427,165	23,314	4,906,594	16	210
of which:					
1 to 9 employees	1,161,270	4,205	679,147	4	162
10 to 49 employees	219,895	4,316	780,563	20	181
50 to 249 employees	37,750	3,677	926,431	97	252

6. INCONSISTENT WITH GOVERNMENT INVESTMENT IN BANKING COMPETITION

6.1 The bundling restriction should remain so long as the Bound Banks continue to hold 70-80% market share. Should the restriction be removed, given the strong links between lending and BCA products and SMEs' low propensity to search and switch, it seems reasonable to assume that competitor market share would migrate back to the Bound Banks. The loss of competition would not only have a worse outcome for SMEs and Bound Bank competitors, but also puts at risk the substantial investment that has been made in creating and supporting banking competition.

6.2 The government invested in 2014 over £1bn to launch the British Business Bank and a substantial amount since, including more significant sums under the July 2025 Leeds Reforms, to increase the supply of credit to SMEs and to diversify the supply of SME lending. The government's actions are well documented as being driven by the withdrawal of high street banks from SME credit and banking services after the financial crisis.[10] A pillar of the British Business Bank's remit is to develop SME funding competition to the Bound Banks, as recently stated in its *2025 Annual Report and Accounts*:

> *"Our ENABLE structured guarantee programmes [...] (which we administer on behalf of the Department for Business and Trade) – help us to support a range of lenders so that smaller businesses are not solely dependent on the major high street banks for financing. These lenders are particularly valuable as they often have a different risk appetite from high street banks, allowing them to provide funding to smaller businesses that may otherwise struggle to secure it.*

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[8] See Paragraph 2.69 of Competition and Markets Authority, *Review of the SME Banking (Behavioural) Undertakings 2002: Provisional Decision, 13 August 2025*. See here: https://connect.cma.gov.uk/sme-banking-undertakings-review-provisional-decision

[9] GOV.UK - Department for Business and Trade, *Business population estimates for the UK and regions 2024: statistical release*. See here: https://www.gov.uk/government/statistics/business-population-estimates-2024/business-population-estimates-for-the-uk-and-regions-2024-statistical-release

[10] The Guardian, *Government's British Business Bank gets another £250m*. See here: https://www.theguardian.com/business/2013/dec/02/british-business-bank-small-firms

Many of these lenders also have specialist regional or sectoral expertise, so they understand better the unique needs of specific groups of smaller businesses. Supporting the growth of these lenders and promoting diversity in the smaller business lending market is a central part of the Bank's remit."[11]

6.3 More recently, the government has overseen the investment of £775m (2019-2022) by the Banking Competition Remedies Ltd (BCR) to promote competition in the SME banking market. This consisted of an initial investment of £275m toward developing a Switching Service to incentivise SME banking customers to switch from NatWest, and £425m for a Capability and Innovation Fund. This fund was distributed through grants to a number of challenger banks and new forms of non-bank providers, expressly to improve their abilities to compete with NatWest SME services. The BCR Directors' view is that the remedies were directly responsible for an increase in competition.[12] An additional £75m was invested to continue competition efforts.

6.4 Permitting the restoration of bundling practices among dominant firms undermines the government's objective and its continued substantial investment in increasing competition. The CMA should bear in mind in its decision-making process the Chancellor of the Exchequer's remit letter to the FCA which called on the regulator to keep pace with innovation and support firms and HMT's *Financial Services Growth and Competitiveness Strategy* which has a unique focus on supporting FinTech as an engine for jobs and growth whereby the package of Leeds Reforms are designed to address barriers to growth for FinTech. The British Business Bank must be part of the debate around the continuation of the bundling remedy.

7. Fairness concessions

7.1 We would indeed be supportive of a position that no bank (not just the Bound Banks) can bundle a BCA with a loan unless there is a customer benefit, aligned to the current exemptions from the LOBP, which include:

(a) where required for shared security (e.g. current account with an authorised overdraft limit that uses the same debenture mortgage security that is used for a business loan); or

(b) if there is a price incentive (i.e. the customer gets better fees/interest by taking the integrated product than not, subject to the customer being allowed to take the products separately if they wish).

8. The role of open finance

8.1 Greater penetration of Open Finance solutions is also necessary to ensure that the right conditions for promoting competition are in place if and when the provisions are removed.

8.2 At this stage, the benefits of Open Finance, particularly in SME markets, are not readily available. Without Open Finance, removing the unbundling provisions risks allowing the further entrenchment of already concentrated market share. The CMA needs to ensure that the decision it intends to take considers and is aligned with the FCA's work to publish

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[11] See Page 26 of British Business Bank, *Annual Report and Accounts 2025*. See here: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-07/bbb-annual-report-and-accounts-2025-tagged.pdf

[12] UK Parliament, Treasury Committee, *Written evidence submitted by Banking Competition Remedies Ltd*. See here: https://committees.parliament.uk/writtenevidence/123053/pdf/

a roadmap to Open Finance by March 2026 (with policy development to follow at a later point) which should cover sectors including the SME market.

9. Conclusion

9.1 In summary, we reiterate our position that there has not been a material change of circumstances and that removing the bundling restriction will reduce choice and value for SMEs, jeopardise the government's substantial investment in creating a competitive SME banking market and potentially the viability of the UK challenger bank sector. Removing the restriction would only act to restore unfair advantages to dominant market participants, ultimately harming SME end-users and the SME banking market.

9.2 Moreover, because bundling acts to entrench the market dominant position of Bound Banks as "National Champions", it undermines the international competitiveness and investability of the UK banking sector. The CMA should reconsider its provisional decision. If the CMA would like to discuss further, we can arrange a meeting with a group of challenger banks (and non-bank lenders) for them to provide more detail on their business models and directly share their concerns.

[ENDS]